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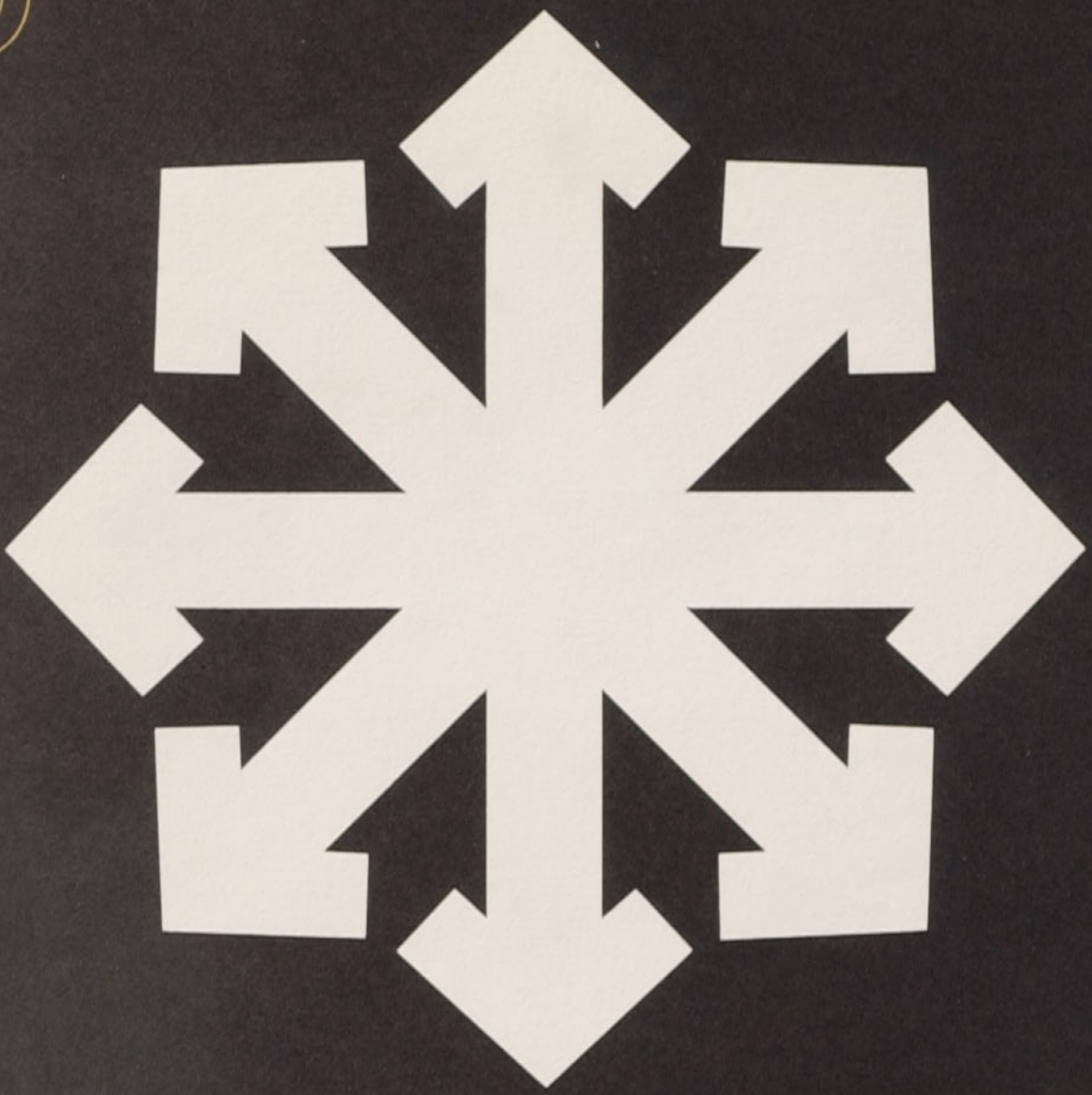

Revolution In The Marketplace

Lippincott and Margulies, Inc.
Industrial Designers
430 Park Avenue, New York 22, New York

L&M

A publication
on design as it affects
marketing, merchandising,
package and
product planning, research
and store planning.
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REVOLUTION IN THE MARKETPLACE

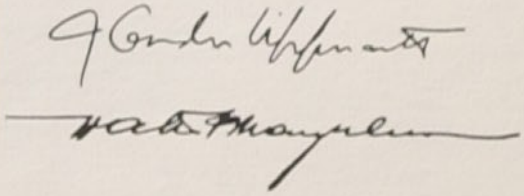
Suppose you were asked to pick the two most important influences on U.S. retailing during the past decade. What would your choices be?

Chances are you would give one vote to the growth of private label brands to a point where, for some classes of products, they now pose a serious threat to the survival of long-established national brands. (See DESIGN SENSE #10)

And your other vote might well go to the rise of the discount house from a back-alley, hole-in-the-wall operation to a point of respectability (and an estimated $5 billion in annual sales) in the retailing community. To the despair of some and the curses of many, the discount house has become a merchandising giant which, in the space of a few short years has, (1) battered the white knight of Fair Trade into an all but unrecognizable pulp; (2) shattered the once clear patterns of retailing; and, (3) thoroughly muddied the placid waters of manufacturer-retailer-customer relations.

What does discount house merchandising mean to product manufacturers and product marketers? More to the point: what are the implications of discount house selling to product design and product designers?

This issue of DESIGN SENSE will attempt some answers.



GOURMET FOODS
PHOTOGRAPHED AT MASTERS, ELMSFORD, NEW YORK

HOW HIGH THE DISCOUNT? HOW MUCH THE OFF?

The lady was obviously well-heeled. She had spent the better part of forty minutes in this Greenwich, Conn., appliance store being guided from one refrigerator to another, taking careful notes of what the clerk had to say about each — and, just as carefully, jotting down model numbers.

The clerk never had a chance to open his order book. With a purposeful snap, she dropped notebook and ballpoint into her purse, announced that she would "have to talk it over" with her husband, hiked her fur stole up around her shoulders and departed.

"Talk it over, my eye," muttered the clerk. "She's going down to Eastbrook Sales, or some other discount house, to see how much off she can get."

From Greenwich, Conn., to Glendale, Cal. — from Michigan to Mississippi — the same kind of real-life drama was being repeated hundreds of times daily in the Autumn of 1959 as the U.S. consumer, more cost-conscious than at any time since the Great Depression (but now for different reasons) haggled and bargained and blew the price down. And down with the prices has come the traditional way of doing business between retailer and customer.

Time was — and it was little more than a decade ago — when the customer accepted the price tag as Gospel. But no longer. Today the customer has

turned from docile Milquetoast, to as shrewd a haggler as ever graced an Arabian bazaar. For him (and her) the list price has become a starting point, not a finality. And across the marketplaces of America resounds the consumers' battle cry, "How much off?"

As an indication of how widespread off-list buying has become, one estimate places "in the millions" the number of young families whose homes are now 80%-90% furnished with things bought at a discount. Another source notes that fully "90% of all small appliances are now sold at less than list." Today, the only major categories still relatively exempt from discounting are things like carpeting and furniture where it is hard for the average consumer to judge quality, and where she must rely, instead, on the reputation and advice of the retailer.

For most hard goods, however, the list price is now as dead as Cock Robin. But if it was the consumer who aimed the arrow, it was the retailer who helped pull back the bowstring. In order to make their final discounts appear as slashing as possible, they frequently pressured manufacturers to set the "original list prices" at levels that had no visible relationship to reality.

And with the death of the list price has come a change in the marketplace.

HOW TO GET FROM BACK STREET TO MAIN STREET

When the first discount houses opened their doors for business, they looked like junk shops, operated like speakeasies. Customers frequently had to show special identity cards to get in at all, and prices were either whispered furtively out of the corner of a salesman's mouth, or written surreptitiously on slips of paper — which were later disposed of as carefully as notes of a National Security Council meeting.

In these early days, old line retailers eyed the newcomers with distaste bordering on disgust. (To this day, one West Coast merchant considers them Un-American). After all, they told themselves, we hold the real aces. Personal service and attention. Sales information. Reputation, delivery, credit, installation services. Would long-loyal customers forego these important assets just to save a few bucks?

Within a few years they had their answer. The customers would — and

did — forego the luxury of extra services for the privilege of buying a $100 item for $59.95. And not because they needed the money to keep their kids in shoes, but rather so that they could put the money thus saved towards the purchase of something else. Dollars saved on a washing machine, for example, usually helped pay for a dryer to go with it. In short, discounting proved to be a way of getting more things, not of saving more money.

As the discounters prospered, they began doing things that changed their image. Crowded shops in the low-rent districts gave way to stores which looked like smart department stores. They expanded to the suburban shopping centers. They took on more lines of merchandise — hardware, sporting goods, clothing, garden supplies. Credit and delivery were added to cash and carry.

In short, except for the important differential of price, they became just like any other retailer. And in spite of added services, the best of them still managed to keep their selling expenses at something less than half the 35% average of conventional retail operations.

Meanwhile, back at the ranch, old-line retailers had awakened to the fact that they were in a battle for survival. They began to meet the discounters on their own level: price.

Soon such respected merchants as Abraham and Strauss, Jordan Marsh, J. L. Hudson, Barker Brothers and Bullocks — to name a few — were proclaiming loudly in print advertising that they would meet or beat any discount house price on any item. "Warehouse Sales" and "Factory Closeouts", where the merchandise went at a 10% markup instead of the standard 40%, became common. Some went the whole route, jumped into the discount field with both feet. In May of 1959, Interstate Department Stores (51 stores, annual volume $85 million) announced plans to open eight "Family Fair" discount department stores in four midwest cities by 1960. In the drug field, the whip-smart Sun Ray Drug Chain is already heavily involved in discounting via its mammoth (100,000 to 150,000 sq. ft.) "Bargain City" stores where the prices are lower than low. In a few cases, conventional retailers kept the old stores but turned them into discount houses — thus achieving the neat trick of combining a discount operation with an established name and a built-in reputation.

But the discounters also had a few merchandising and marketing tricks up their sleeves. One eastern discounter who needed cash for his expansion program got S.E.C. permission to issue stock, promptly turned around and sold it at booths in its existing stores to its bargain-hunting customers. And in one Rocky Mountain city they are still talking about the department store that bought up a line of "last year's" men's jewelry sold it at 89¢ a set (original list: $5.00). Meanwhile, a local discounter had also bought a batch of the stuff which he quietly held until the 89¢ sale was forgotten. Then — with a fanfare of ads screaming "half price!" — he unloaded his entire stock at $2.50 per set.

Line-holding tactics by retailer-harrassed manufacturers were as effective as trying to stop a Mississippi flood with a Kleenex. When New York discounter E. J. Korvette, Inc. first went into the soft goods field, manufacturers of brand name apparel (under pressure from non-discount customers) refused to sell their lines to him. He simply placed his order through a legitimate retailer, allowed him to keep the 8% cash discount for his trouble, and got the goods — which he subsequently sold at considerably less than department store prices.

MORE STONES IN MUDDY WATERS

To make the retailing picture even more confusing, the nation's supermarkets have joined the battle for the customer's dollar. First it was just kitchen and household odds and ends; then packaged soft goods and records; then smaller appliances. Finally — and inevitably — came the major test of

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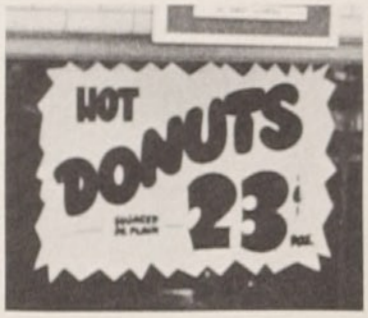
BAME

A N C E S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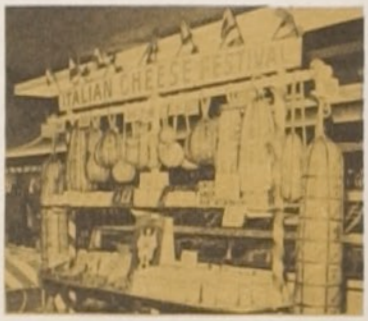
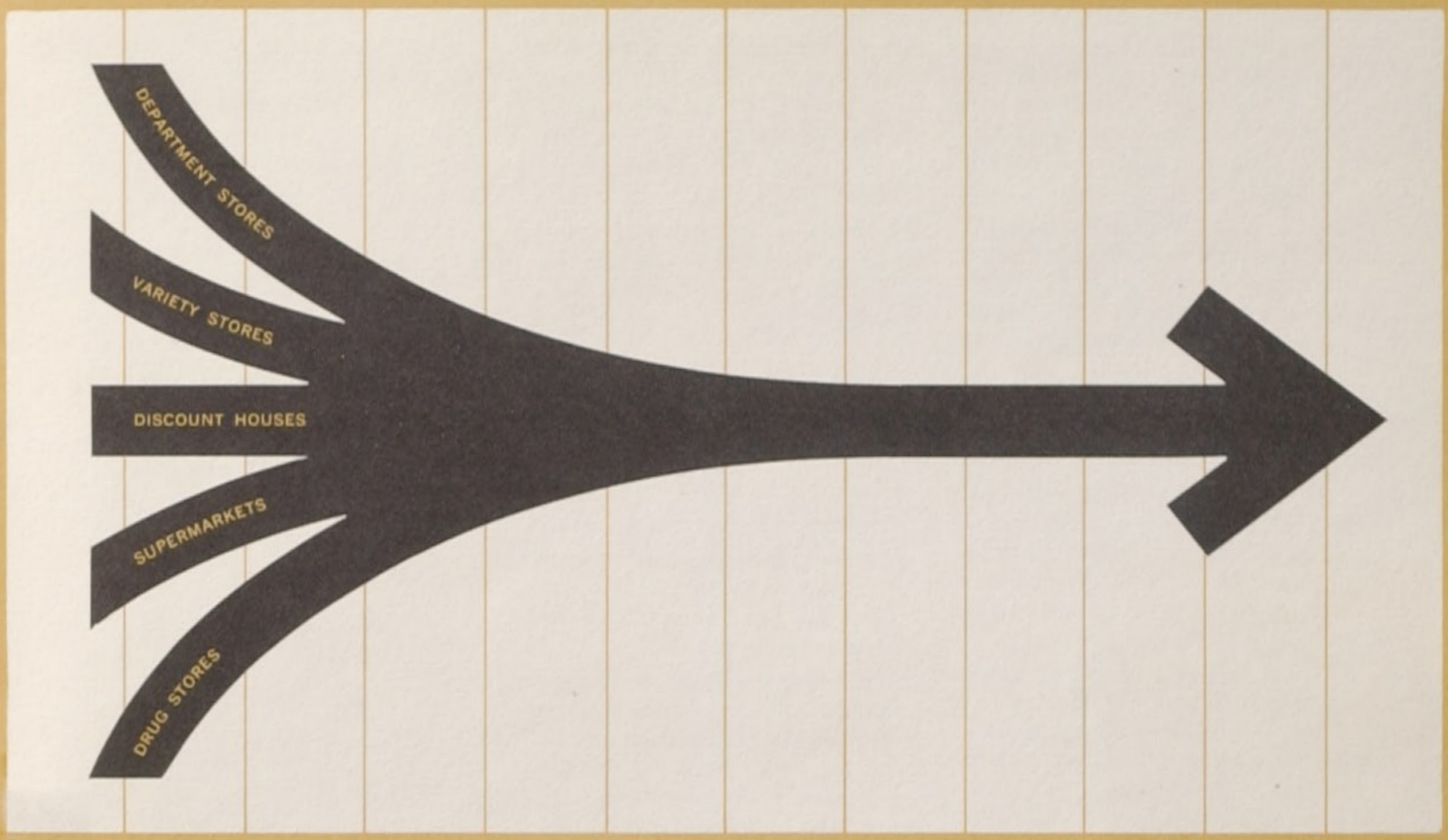

ITALIAN CHEESE FESTIVAL



supermarketing in the non-foods area, when a few giants in the industry went all the way into the field of discount selling.

Biggest effort to date has been that of the Grand Union Company, which, by mid-1959, had opened fourteen "Grand Way Discount Centers" in Eastern Seaboard states. One of its major units: an 85,000 sq. ft. center in Paramus, New Jersey. Here the housewife can buy meat and potatoes (at a discount over regular supermarket prices); walk across the floor and pick up a frying pan to cook them in; turn a corner and buy a new dress in which to greet her husband that evening. In all, the store carries 7,500 food items, plus 25,000 non-foods. It offers money-back guarantees, time and lay-away plans plus such shopper conveniences as a Kiddie Korner, complete with baby sitter, and a luncheonette with parking space for 32 shopping carts.

Variations on this theme have been tried by other giant food merchandisers. As an experiment, Safeway Stores has leased sections of its markets to local discount merchants for the display and sale of consumer durable items. Kroger allows shoppers to buy non-food items at discounts ranging up to 50% by saving labels from Kroger's private brand food items. And, Colonial Stores has introduced heavily discounted catalog selling of appliances and other non-foods — with trading stamps given as an added consumer inducement.

Nor is food likely to be the last act. In its October and November, 1959, issues, National Petroleum News, authoritative magazine of oil marketing, puts a worried finger on what may well become the biggest battle of the Sixties: the entry into the gasoline retailing field of both discounters and supermarkets. Backing its warning with facts, the magazine notes that Philadelphia's Food Fair supermarket chain has four gas stations a-building, twenty more planned. And it points to gasoline retailing plans by Masters, 2-Guys, Bargain City and other eastern discounters as evidence that gas and oil discounting, now booming in the West and Southwest, is crossing the country lightning-fast. Most quotable quote by one un-named discounter: "We'll murder some of these oil boys!"

NEXT STOP: WHERE?

In sum, discount houses are increasingly acting like department stores. Department stores are acting like discounters. Supermarkets are acting like both. And to bring the wheel full circle, a new brand of retailer has recently appeared on the scene — the "cataloger" or "pricelegger." This is a character operating out of a closet-sized office with nothing but catalogs for company. Customers shop by model numbers; he orders the merchandise. With overhead practically nil and with no inventory, delivery, personnel, or servicing to worry about, he is able to discount the discounter with prices as much as 60% off list.

Where does retailing go from here? Is the small local dealer as doomed as the list prices he represents? Will all department stores end up as discount houses? . . . or vice versa?

One school of marketing thought holds that the discounter will continue his present growth — including expansion into new product lines and marketing areas — until he ends up with all the business. The opposite opinion holds that, with the entry of department stores into the "we won't be undersold" game, the discounters will have to add services, and provide a more attractive shopping atmosphere. This, in turn, will force them to raise prices to cover the overhead these extras represent. In time, everything will reach equilibrium again with discount-department stores and department-discount houses about evenly matched. The supermarket point of view is represented by Lansing Shield, head of Grand Union, who has flatly predicted that by 1961 every new supermarket will be a small department store. Some marketers throw up their hands in total bewilderment. As one retailer put it: "Everyone is caught in a new cycle of merchandising evolution, and where it will all end the Lord only knows."

The fact is, of course, that discount house competition has shaken the traditional retailers to their boots, and has forced them, at last, to improve the efficiency of their selling operation. As a collateral effect, the pressure for lower prices has forced manufacturers to streamline their production and distribution methods in an effort to bring their own costs down. To be sure, the retailing revolution has had its casualties among small retailers and local appliance dealers. But it has also had its victors: the long suffering U. S. consumers.

FOR TODAY'S CUSTOMERS: NEW BUYING CRITERIA

But what of the consumer in this new marketplace that he has helped create? How does he buy? What factors influence his decision?

In an effort to find out more about consumer buying habits in discount houses, L&M's Package Research Institute conducted an on-the-spot survey of customers at several New York discount stores. Their reactions are revealing:

1 To nobody's surprise, price proved to be the major appeal, and while most respondents were openly hostile at the lack of store service and the crowded shopping conditions, they accepted these handicaps for the sake of lower prices. ("They don't deliver, they don't give you any information, and they're not even polite. The only advantage is that they are cheaper, and that is the basis on which they operate.")

2 Other stores frequently end up doing the selling job for the discounters. ("I went to Macy's first to see what various electric blankets looked like, and then came here [i.e. to a discount house] and bought this one.")

3 Most of the time, the brand decision has already been made, and shopping is a price comparison operation. ("I asked my friends which was the best refrigerator, and then went where I could get the best deal.")

4 The rest of the time, the visual impression of the product at the point of sale almost invariably becomes the

most important single purchase determinant. ("They had a big display of rotisseries. The more we looked, the more they all look alike. Finally, we picked one that seemed to be more substantial. The parts fitted better and it looked as if it had more controls on it for the price.")

5 Brand name is important when it comes to a choice between an unknown and a known brand. When the choice is among brands that are all well known, the brand names tend to equalize each other. ("We saw this G.E. fan, and a Westinghouse, and some I had never heard of. We figured we had better stick with a name we knew, so we picked the G.E. but by then it was pretty much a matter of price.")

FOR TODAY'S MARKETERS: NEW SELLING CRITERIA

Inherent in these findings are the four major determinants of sales success for products sold in today's self-service marketplaces:

Price

The single most important determinant, of course, is price. But since most people shop with at least a vague idea of how much they can afford to spend, price acts primarily as a screening device. The customer rules out those he hasn't the money to buy, and makes his selection from the models and brands that are left.

Once the field has been narrowed down, the three other "leverage" factors that can tip the decision for or against you come into play.

Brand Name

In today's decide-it-yourself shopping, the brand name on the product can frequently make or break the sale. This, in turn, puts a premium on the design and positioning of the product nameplate. It must be visible to the customer (at the very least, he should not be forced to *hunt* for it), and it must clearly and quickly identify the maker. For maximum identification and recall, this means that the use of the trademark and logotype on the nameplate should be consistent with the way it is used in the company's advertising, booklets, catalogs, etc.—in short, consistent with its use in all other media of visual communication.

With frustrating frequency, manufacturers who observe the basic principles of good Corporate Identity in everything else fail at the very last step: the product. When they reach this final, vital link to their public, they are seized, inexplicably, with a passion for hard-to-read l e t t e r s p a c e d logotypes, for fancy scripts and trademarks that have been gimmicked up beyond all reason. Result: valuable recognition equity built up at such cost in time, effort and money through advertising is thrown away at the crucial point of purchase.

Product Differential

The second "leverage factor" influencing the customer's buy-decision is the real (not the dreamed-up) differences between products — *and the skill with which these differences are dramatized at the point of sale.* If the differences are demonstrable, then design can help tell the customer visually that your product is, say, easier to operate, or easier to clean, or easier to carry and handle. Design can convey this message faster and more believably than words because design tells the story in terms of things that the shopper can see with his own eyes, touch with his hands, diddle with and dawdle over while he is going through his "agony of decision."

If the differences are the kind that can *not* be shown in external design features then perhaps the answer is more potent persuasion at the point of purchase. Why not, for instance, attach to each appliance a brief, informative booklet which the customer (or his wife) might read while weighing the pros and cons? Or why not attach informative stickers to each machine pointing out its special, but hidden, features. Advertising for a TV set, for example, might well carry the admonition to "Look for the Five-Star Model!" And at the retail level, sure enough, the sets on display would carry five self-adhering stars pointing out, by location and copy, the Hie-Fie Speakers, the Powr-Pakt Transformer, the Super-Sync picture tube and similar hyphenated selling features.

The ways are legion to provide point-of-purchase sales helps to replace the don't know and don't care clerks. We are surprised that so few manufacturers make any real effort to help the customer during the final precious minutes before the buy is cast.

Product Look

Closely allied to this leverage factor is the other major determinant of product success — the overall "look" of the product as a visual entity. Where price and brand familiarity are about equal, and real product differences minimal (and this is most of the time) the "look" or "product image" can frequently prove to be the most important factor influencing the customer's decision to buy. Here is the way one respondent put it during our survey, and since we couldn't say it any better ourselves, here is her verbatim quote: "We had almost decided to buy one make (of kitchen mixer) when I saw this other brand. Well, it looked so handsome sitting there, and it looked as if it would be easy to take apart and clean, and it looked as if it was really well-made — not tinny like some — so we ended up buying it."

It goes without saying that design — *and only design* — can convey the kind of "product image" that will do a selling job like this.

Price, brand name, unique features and product image, then, are the leverage factors that determine the Total Sales Effectiveness of most consumer products today. But overriding all of these factors is another: the shopping "surround".

FOR INDUSTRIAL DESIGNERS: A NEW CONCEPT

For as many years as industrial designers have been designing products, they have performed certain kinds of functions for their clients. L&M's product development staff, for instance, has been — and still is — heavily involved in all of the designer's traditional functions. (See next page.)

But today's retailing revolution has added new dimensions to the product designer's job. He must be able to do the things he has always done. But he must now be able to bring to his work in the product design field two new capabilities:

First: He must be as much a marketing man — or at the very least *know* as much about how the product is sold — as the client's sales manager or advertising director.

Second: He must know how to use design research to discover consumer motivations both *before* and *at* the point of sale.

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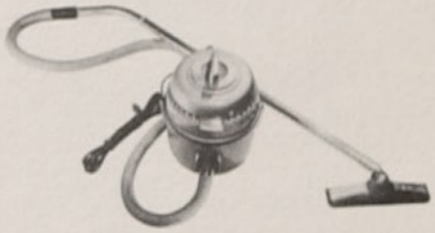
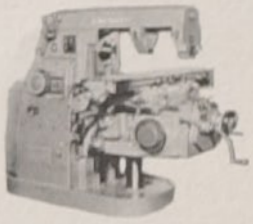
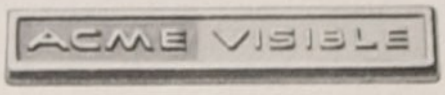
PRODUCT DESIGNERS HAVE ALWAYS DONE THESE THINGS

FUNCTION	EXAMPLE	
Appearance design for existing products.	Lau Blower Company's "Ultra-20" household fan which surrounded the blade and motor with a "wrap-around" frame, thus setting a design (by L&M) and engineering (by Lau) pace still being copied by other manufacturers.	
Functional improvement of existing products.	This container designed by L&M for Ethicon Company's Surgical sutures combines the transparency of clear polystyrene for quick, positive identification, with plastic's durability to insure against breakage of glass vials inside.	
Visualization of bold new technological concepts.	L&M's advanced designs (for Sharon Steel Corp.) of a room air conditioner operating on the principle of thermoelectric refrigeration. A product not likely to see the market for a decade or more.	
Design for production economies.	Redesign of this Duralux electric coffeemaker increased the diameter of the top opening, thus significantly reducing the percentage of production line rejects.	
Product Development Design	L&M's design for the first Lewyt vacuum cleaner which started with a concept and developed the "canister" shape as the most logical design expression of the machine's function.	
Design for more efficient operation ("Human Engineering")	Cincinnati Milling Machine, to which L&M contributed redesign of various wheels, knobs and control handles to insure safer, easier, more accurate operation.	
Design for more effective brand identification.	Nameplate for Acme Visible Record's line of office filing equipment. In addition to L&M's appearance design, this L&M-designed "mark" has become standard identification on all Acme Visible products.	

What we are saying, of course, is that today's product designer, whenever he operates in the field of consumer product design, must know how to use design as a marketing tool.

It is not hard to see why this is so. Visit almost any retailing outlet today and you will find the merchandise lined up row on row. A dozen brands, and off-brands of toasters together. Shelves chock-a-block with radios or clocks, or mixers. Rows of washers, stoves, refrigerators and TV sets like so many boxes of cereal or cans of beans. In fact, it is not unusual to find consumer products an aisle's length away from consumer packaged goods. And sometimes they are side by side — the floor waxes next to the floor waxers, and so on.

If you can believe what you see, you will recognize that many products today have marketing — and design — requirements directly related to packaged goods. The retailing revolution has brought them together at the point of sale. They are sold to the same customers . . . under the same conditions . . . frequently during the same shopping trip. They are, in short, so intermixed as to make ridiculous the idea that there should be separate marketing criteria for each.

This is a concept of vital significance to product marketing men — and to product designers.

For one thing it means that, like today's supermarket packages, today's consumer products must use shape and color and texture and surface graphics precisely as packages use these elements: to evoke a favorable response in the mind of the customer, and by doing so, to increase sales. For another, it means that today's product designer must be skilled in using the same kind of tools — including design research — that have been applied so successfully to the design of packaged goods.

Does this mean that we are proposing that product designers ignore esthetics and go all out for the gaudy, the flashy and the "hard sell" design? Not for a moment. We have enough faith in the taste and judgment of the U. S. consumer to believe that, other things being about equal, "good" design will always outsell "bad" design — and by a wide margin. *The truly inspired industrial designer, in our opinion, is the one who can create products in which good design equals good salesmanship.*

Under this new concept, however, the old, esthetic-oriented criteria must give way to criteria which are oriented, realistically, towards the needs of today's new marketplaces and the needs of today's consumers.

Criteria like these, for example:

1 *Does the product attract attention at the point of sale?* The self-service nature of most consumer product selling demands that design meet this requirement.

2 *Once seen, does the product encourage purchase?* Is the brand name clearly visible, highly legible? Are its special or unique features emphasized in the design? Does the appearance conform to the image the product should have — i.e., if it is a product for modern living, does it *look* modern? If it is portable, does it *look* light. Finally, does the design help justify the price by suggesting quality, precision manufacture, durability and similar attributes?

3 *Once purchased, does the design work to encourage loyalty toward the brand?* Most products have life-spans measured in years. The role of design, then, goes beyond encouraging repurchase of the same item. It must work to convince the consumer that other brands in the manufacturer's line are worth buying, too. A well-designed fan, for example, can build consumer confidence in the same manufacturer's air conditioner, or space heater, or, in fact, anything else he makes.

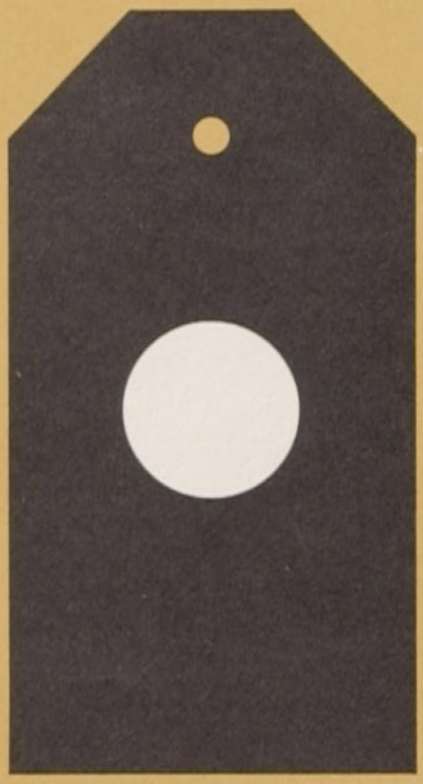
These then are the criteria — the standards — which today's product designer must apply to his work. And not *just* the designer. They are yardsticks which any marketing executive concerned with sales performance can apply to his own and competing products.

In today's no-holds-barred retailing revolution, product design has become as much a marketing tool as a new advertising campaign, a new pricing policy — or, for that matter, a new package. And success in the marketplaces of the Sixties will go, we feel sure, to companies who integrate their product design with all other elements of the marketing mix so that the end result is a single clear, consistent message engraved indelibly on the mind of the buying public.

SAC
L&M

We are proud to number
among our clients

Acme Visible Records, Inc.
American Community Stores (store planning)
American Machine & Foundry Company
The American Tobacco Company
Asgrow Seed Company
Associated Spring Corp.
Burry Biscuit Corp.
Capital Airlines
Champion Spark Plug Company
Clairol, Inc.
Commonwealth Products
Continental Baking Company
Dairy Queen National Development Co.
DX Sunray Oil Company
Falstaff Brewing Corp.
First National Stores (store planning)
General Foods Corp.
General Mills, Inc.
Gluek Brewing Company
Goebel Brewing Co.
Gould National Batteries, Inc.
Homelite
Imperial Tobacco Company of Canada, Ltd.
S. C. Johnson & Son, Inc.
Keasbey & Mattison Co.
Kirsch Company, Inc.
Kraft Foods Company
The Kroger Company (store planning)
Olin Mathieson Chemical Corp.
Owens-Corning Fiberglas Corp.
Pacquin, Inc.
Phillips Petroleum Co.
Schultz Brothers Company (store planning)
Seabrook Farms Co.
Standard Oil Company of Ohio
Steinberg's Ltd. (store planning)
Stroehmann Bros. Company
Sylvania Lighting Products Div.
Union Carbide Corporation
United States Steel Corp.
United States Tobacco Company
Western Grocers, Ltd. (store planning)
Weyerhaeuser Company



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